

Summit Hotel Properties, Inc.

Form S-11/A

November 01, 2010

**Table of Contents**

As filed with the United States Securities and Exchange Commission on November 1, 2010

Registration No. 333-168686

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 2  
to  
Form S-11  
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933  
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES**

**SUMMIT HOTEL PROPERTIES, INC.**  
*(Exact name of registrant as specified in governing instruments)*

**2701 South Minnesota Avenue, Suite 6  
Sioux Falls, South Dakota 57105  
(605) 361-9566**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Daniel P. Hansen  
President and Chief Executive Officer  
2701 South Minnesota Avenue, Suite 6  
Sioux Falls, South Dakota 57105  
(605) 361-9566**

*(Name and address, including zip code, and telephone number, including area code, of agent for service)*

*Copies to:*

**David C. Wright, Esq.  
Edward W. Elmore, Jr., Esq.  
Hunton & Williams LLP  
Riverfront Plaza, East Tower**

**James E. Showen, Esq.  
Kevin L. Vold, Esq.  
Hogan Lovells US LLP  
Columbia Square**

951 E. Byrd Street  
Richmond, Virginia 23219-4074  
Tel: (804) 788-8200  
Fax: (804) 788-8218

555 13<sup>th</sup> Street NW  
Washington, DC 20004  
Tel: (202) 637-5600  
Fax: (202) 637-5910

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

**PROSPECTUS**

**Shares of Common Stock**

Summit Hotel Properties, Inc. is selling all of the common stock offered by this prospectus. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$      and \$      per share. We have applied to list our common stock on the New York Stock Exchange, or NYSE, under the symbol INN.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. The common stock offered by this prospectus is subject to restrictions on ownership and transfer that are intended to, among other purposes, assist us in qualifying and maintaining our qualification as a REIT. Our charter generally limits beneficial and constructive ownership to no more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. See Description of Capital Stock Restrictions on Ownership and Transfer.

**Investing in our common stock involves risks. See Risk Factors beginning on page 18 of this prospectus for a description of various risks you should consider in evaluating an investment in the shares.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters have a 30-day option to purchase up to                      additional shares of common stock from us on the same terms set forth above to cover over-allotments, if any.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Baird**

**The date of this prospectus is           , 2010.**

---

**Table of Contents**

---

## Table of Contents

	<b><u>Page</u></b>
<u>Summary</u>	1
<u>Risk Factors</u>	18
<u>Cautionary Note Regarding Forward-Looking Statements</u>	40
<u>Use of Proceeds</u>	41
<u>Capitalization</u>	42
<u>Dilution</u>	43
<u>Distribution Policy</u>	45
<u>Selected Financial and Operating Data</u>	48
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	51
<u>Structure of Our Company</u>	67
<u>Formation Transactions</u>	68
<u>Our Business and Properties</u>	71
<u>Our Hotel Operating Agreements</u>	90
<u>Management</u>	94
<u>Investment Policies and Policies With Respect to Certain Activities</u>	113
<u>Principal Stockholders</u>	116
<u>Certain Relationships and Related Party Transactions</u>	117
<u>Description of Capital Stock</u>	119
<u>Shares Eligible for Future Sale</u>	123
<u>Material Provisions of Maryland Law and of Our Charter and Bylaws</u>	125
<u>Description of the Partnership Agreement</u>	130
<u>Material Federal Income Tax Considerations</u>	136
<u>ERISA Considerations</u>	161
<u>Underwriting</u>	162
<u>Experts</u>	166
<u>Legal Matters</u>	166
<u>Where You Can Find More Information</u>	166
<u>Index To Financial Statements</u>	F-1

You should rely only on the information contained in this prospectus and any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition and results of operations and prospectus may have changed since those dates.

Through and including \_\_\_\_\_, 2010 (the 25th day after the date of this prospectus) federal securities law may require all dealers that effect transactions in these securities, whether or not participating in this offering, to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

This prospectus contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Marriott International, Inc., Hilton Worldwide, InterContinental Hotels Group, Hyatt Hotels and Resorts, Choice Hotels International, Inc., Carlson Hotels and Starwood Hotels and Resorts Worldwide, Inc. None of the owners of the trademarks appearing in this prospectus, their parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, stockholders, owners, agents or employees, which we refer to collectively as the



**Table of Contents**

trademark owners, is an issuer or underwriter of the shares being offered hereby, plays (or will play) any role in the offer or sale of our shares or has any responsibility for the creation or contents of this prospectus. In addition, none of the trademark owners has or will have any liability or responsibility whatsoever arising out of or related to the sale or offer of the shares being offered hereby, including any liability or responsibility for any financial statements, projections or other financial information or other information contained in this prospectus or otherwise disseminated in connection with the offer or sale of the shares offered by this prospectus. You must understand that, if you purchase our common stock in this offering, your sole recourse for any alleged or actual impropriety relating to the offer and sale of the common stock and the operation of our business will be against us (and/or, as may be applicable, the seller of such shares) and in no event may you seek to impose liability arising from or related to such activity, directly or indirectly, upon any of the trademark owners.

We use market data and industry forecasts and projections throughout this prospectus, including data from publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry and there can be no assurance that any of the projections will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently verified this information.

## **Table of Contents**

### **Summary**

*The following summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the following summary together with the more detailed information regarding our company and an investment in our common stock, including the information under the caption Risk Factors and the historical and pro forma financial statements, including the related notes, appearing elsewhere in this prospectus. Unless the context otherwise requires or indicates, references in this prospectus to our predecessor refer to Summit Hotel Properties, LLC and its consolidated subsidiaries, including Summit Group of Scottsdale, Arizona, LLC, or Summit of Scottsdale. Unless the context otherwise requires or indicates, references in this prospectus to we, our, us, our company and the company refer to Summit Hotel Properties, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Summit Hotel OP, LP, a Delaware limited partnership, which we refer to in this prospectus as the operating partnership, Summit Hotel GP, LLC, a Delaware limited liability company that will become the general partner of our operating partnership, and Summit Hotel TRS, Inc., a Delaware corporation, which we refer to in this prospectus as Summit TRS. We refer to Summit TRS and the wholly owned subsidiaries of Summit TRS that will lease our hotels from our operating partnership as our TRS lessees.*

*In addition, unless the context otherwise requires or indicates, the information set forth in this prospectus assumes that: (i) the formation transactions described elsewhere in this prospectus have been completed; (ii) the underwriters over-allotment option is not exercised; (iii) the common stock to be sold in the offering is sold at \$ per share, which is the mid-point of the initial public offering price range shown on the cover of this prospectus; and (iv) the value of each unit of limited partnership interest in our operating partnership, which we refer to as an OP unit, issued in the formation transactions is equivalent to the initial public offering price of one share of our common stock.*

### **Overview**

We are a self-managed hotel investment company that was recently organized to continue and expand the existing hotel investment business of our predecessor, Summit Hotel Properties, LLC, a leading U.S. hotel owner. We will focus exclusively on acquiring and owning premium-branded limited-service and select-service hotels in the upscale and midscale without food and beverage segments of the U.S. lodging industry. Following completion of this offering and the formation transactions, our initial portfolio will consist of 65 hotels with a total of 6,533 guestrooms located in 19 states. Our initial portfolio consists of what we consider both seasoned and unseasoned hotels that are located in markets in which we have extensive experience and that exhibit multiple demand generators, such as business and corporate headquarters, retail centers, airports and tourist attractions. Based on total number of rooms, 48% of our portfolio is positioned in the top 50 metropolitan statistical areas, or MSAs, and 68% is located within the top 100 MSAs.

Entities controlled by our Executive Chairman, Kerry W. Boekelheide, have been in the business of acquiring, developing, financing, operating and selling hotels since 1991, have acquired a total of 93 hotels in transactions having an aggregate value of approximately \$606.8 million, and have sold, transferred or otherwise disposed of a total of 27 hotels in transactions having an aggregate value of approximately \$104.6 million.

The majority of our hotels operate under premium franchise brands owned by Marriott International, Inc. (Courtyard by Marriott, Residence Inn, SpringHill Suites, Fairfield Inn and TownePlace Suites), Hilton Worldwide (Hampton Inn, Hampton Inn & Suites and Hilton Garden Inn), InterContinental Hotels Group (Holiday Inn Express and Staybridge Suites) and an affiliate of Hyatt Hotels Corporation (Hyatt Place).

Since January 1, 2007, we have made approximately \$305.4 million of capital investments through strategic acquisitions and upgrades and improvements to our hotels to be well-positioned for improving general lodging fundamentals. Further, we expect to use up to approximately \$10.0 million of the net proceeds of this offering to make additional capital improvements to hotels in our portfolio. We believe the U.S. economy has begun to recover from the recent economic recession and, as a result, lodging industry fundamentals will strengthen over the near-term. As a result, we believe our portfolio is well-positioned for significant internal growth in hotel operating revenues in this environment based on our mix of seasoned hotels and unseasoned hotels.

We intend to identify and acquire undermanaged and underperforming hotels and use our expertise to renovate, rebrand and reposition the hotels to improve cash flows and long-term value. We believe we will be able to source a significant volume of acquisition opportunities, particularly due to the relative size of our target lodging industry segments, lack of available debt

## **Table of Contents**

financing in the capital markets and the weakness experienced since mid-2008 in the lodging industry. We also believe that, while other public REITs and well-capitalized institutional owners seek to acquire assets that fit our investment criteria, we will be the only publicly traded REIT focused solely on these segments on a national basis.

We were organized as a Maryland corporation on June 30, 2010 and intend to elect to be taxed as a REIT for federal income tax purposes beginning with our short taxable year ending December 31, 2010. We will conduct substantially all of our business through our operating partnership, Summit Hotel OP, LP, a Delaware limited partnership. See Structure of Our Company.

## **Our Competitive Strengths**

*High-Quality Portfolio of Hotels.* Our initial portfolio is composed of 65 hotels located in 19 states with an average age of ten years. No single hotel accounted for more than 3.6% of our predecessor's hotel operating revenues for the 12-month period ended June 30, 2010. We believe all of our hotels are located in markets where there will be limited growth in lodging supply over the next several years. Additionally, in many of our markets, we own two or more hotels in close proximity to each other, which we believe allows our hotel managers to maintain rate integrity and maximize occupancy by referring travelers to our other hotels. Similarly, franchise areas of protection, which prohibit the opening of hotels with the same brand as one of our hotels within certain proximities of our hotels, provide barriers to entry in suburban markets where many of our hotels are located.

*Seasoned Portfolio and Significant Upside Potential.* Our initial portfolio is composed of 46 seasoned hotels with established track records and strong positions within their markets. We classify our other 19 hotels, which were either built after January 1, 2007 or experienced a brand conversion since January 1, 2008, as unseasoned. We believe that the market penetration of our unseasoned hotels is significantly less than that of our seasoned hotels due to the dramatic economic slowdown over the past two years that delayed these hotels from achieving anticipated growth rates and revenues. However, most of our unseasoned hotels operate under premium brands and are newer, larger and are located in larger markets than our seasoned hotels. As a result, we believe our unseasoned hotels can experience significant growth in room revenue per available room, or RevPAR, and profitability as the economy and industry fundamentals improve.

*Experienced Executive Management Team With a Proven Track Record.* Our management team, led by our Executive Chairman, Mr. Boekelheide, has extensive experience acquiring, developing, owning, operating, renovating, rebranding and financing hotel properties. Through this experience, our management team has developed strong execution capabilities as well as an extensive network of industry, corporate and institutional relationships, including relationships with the leading lodging franchisors in our targeted markets. We believe these relationships will provide insight and access to attractive investment opportunities and allow us to react to local market conditions by seeking the optimal franchise brand for the market in which each of our hotels is located.

*Aggressive Asset Management and Experienced Asset Management Team.* We will maintain a dedicated asset management team led by our Executive Vice President and Chief Operating Officer, Craig J. Aniszewski, to analyze our portfolio as a whole and oversee our independent hotel managers. Our asset management team has managed hotel assets in every industry segment through multiple hotel business cycles. Our entire asset management team has worked together at The Summit Group, Inc., or The Summit Group, the manager of our predecessor and its hotels, for the last ten years, which provides us expertise, operational stability and in-depth knowledge of our portfolio. We will work proactively with our hotel managers to continue to drive operational performance by identifying and implementing strategies to optimize hotel profitability through revenue management strategies, budgeting, analyzing cost structure, market positioning, evaluating and making capital improvements and continually reviewing and refining our overall business strategy. Among other techniques, we initially will employ three full-time asset managers who will assist our hotel management companies to structure room rate plans and develop occupancy strategies to

achieve optimum revenues.

*Strategic Focus on Largest Segments of Lodging Industry.* We believe we will be the only publicly traded REIT that focuses exclusively on upscale hotels and midscale without food and beverage hotels on a national basis. By number of rooms, 81% of our hotels operate under brands owned by Marriott, Hilton, Intercontinental or Hyatt, which are generally regarded as the premium global franchises in our segments. We believe that business and leisure travelers prefer the consistent service and quality associated with these premium brands, and that brand serves as a significant driver of demand for hotel rooms. As reported by Smith Travel Research in 2010, of the approximately 29,735 branded hotels in the

## **Table of Contents**

United States, 13,066 hotels, or 43.9%, are within our target segments (upscale: 3,536 hotels; midscale without food and beverage: 9,530 hotels). The size of this market represents a potential acquisition pool significantly larger than the upper upscale (1,669 hotels, or 5.6%, of total branded hotels) or luxury (341 hotels, or 1.2%, of total branded hotels) segments. We believe the fragmented ownership of premium-branded limited-service and select-service hotels in the upscale and midscale without food and beverage segments, the size of the segments, our longstanding relationships with franchisors, the lack of well-capitalized competitors and our extensive experience and expertise provide us a distinct competitive advantage and a significant opportunity to profitably grow our company.

*Growth-Oriented Capital Structure.* Upon completion of this offering and the formation transactions, we expect to employ a prudent leverage structure that will provide us the ability to make strategic acquisitions as industry fundamentals and the lending environment improves. Upon completion of this offering and application of the net proceeds as described in Use of Proceeds, we will have approximately \$199.4 million in outstanding indebtedness and 33 hotels unencumbered by indebtedness, including 25 hotels with 2,330 rooms operating under premium brands owned by Marriott, Hilton, Intercontinental or Hyatt available to secure future loans. We believe our capital structure positions us well to capitalize on what we expect to be significant acquisition opportunities.

## **Summary Risk Factors**

An investment in our common stock involves various risks. You should carefully consider the matters discussed in Risk Factors beginning on page 18 of this prospectus before you decide whether to invest in our common stock. Some of the risks include the following:

- § Our business strategy depends significantly on achieving revenue and net income growth from anticipated increases in demand for hotel rooms any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.
- § Our unseasoned hotels have limited operating history and may not achieve the operating performance we anticipate, and as a result, our overall returns may not improve as we expect or may decline.
- § We have no operating history as a publicly traded REIT and may not be successful in operating as a publicly traded REIT, which may adversely affect our ability to make distributions to our stockholders.
- § Our success depends on key personnel whose continued service is not guaranteed.
- § We may be unable to complete acquisitions that would grow our business, and even if they are completed, we may fail to successfully integrate and operate such acquired hotels.
- § Upon completion of this offering and the formation transactions, the management of all of the hotels in our portfolio will be concentrated in one hotel management company, Interstate Management Company, LLC, or Interstate, and termination of our hotel management agreement with that company may cause us to pay substantial termination fees or experience significant disruptions at our hotels.
- § Funds spent to maintain franchisor operating standards, the loss of a franchise license or a decline in the value of a franchise brand may have a material adverse effect on our business and financial results.
- § We will rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.

Edgar Filing: Summit Hotel Properties, Inc. - Form S-11/A

- § We have a significant amount of debt, and our organizational documents have no limitation on the amount of additional indebtedness that we may incur in the future. As a result, we may become highly leveraged in the future, which could adversely affect our financial condition.
- § The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.
- § We may not be able to obtain a credit facility.

**Table of Contents**

- § Our Executive Chairman, Mr. Boekelheide, and other members of our management team exercised significant influence with respect to the terms of the formation transactions, including transactions in which they determined the compensation they would receive.
- § Competition from other upscale and midscale without food and beverage hotels in the markets in which we operate could have a material adverse effect on our results of operations.
- § Our operating results and ability to make distributions to our stockholders may be adversely affected by the markets in which we operate and risks inherent to the ownership of hotels.
- § Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of hotels in which we may invest or to adjust our portfolio in response to changes in economic and other conditions, and, therefore, may harm our financial condition.
- § We may change the distribution policy with respect to our common stock in the future.
- § The cash available for distribution may not be sufficient to make distributions at expected levels, and we cannot assure you of our ability to make distributions in the future. We may use borrowed funds or funds from other sources to make distributions, which may adversely impact our operations.
- § We may use a portion of the net proceeds from this offering to make distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, which would, among other things, reduce our cash available for investing.
- § If you purchase shares of common stock in this offering, you will experience immediate dilution.
- § Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.

**Our Growth Strategies and Investment Criteria**

Our strategy focuses on maximizing the cash flow of our portfolio through focused asset management, targeted capital investment and opportunistic acquisitions. Our primary objective is to enhance stockholder value over time by generating strong risk-adjusted returns for our stockholders. We believe we can create long-term value by pursuing the following strategies.

*Internal Growth from Strengthening Lodging Industry Fundamentals.* Since January 1, 2007, we have made approximately \$305.4 million of capital investments through strategic acquisitions and upgrades and improvements to our hotels to be well-positioned for improving general lodging fundamentals. We believe our hotels will experience significant revenue growth as lodging industry fundamentals recover from the economic recession which caused industry-wide RevPAR to suffer a combined 18.4% decline in 2008 and 2009, according to Smith Travel Research. Industry conditions have shown improvement during the first eight months of 2010, with RevPAR growth across all segments of 4.0% as compared to the same period of 2009, according to Smith Travel Research. Colliers PKF Hospitality Research forecasts significant compound annual growth in RevPAR from 2010 to 2014 of 7.0% for the upscale segment and 8.5% for the midscale without food and beverage segment, the best forecast for any segment in the industry.



*Disciplined Acquisition of Hotels.* We intend to grow through acquisitions of existing hotels using a disciplined and targeted approach while maintaining a prudent capital structure. We employ a proactive and continuous assessment of our hotels, markets and brands in order to quickly and efficiently upgrade our hotels as market conditions warrant. We intend to target upscale and midscale without food and beverage hotels that meet one or more of the following acquisition criteria:

- § have potential for strong risk-adjusted returns located in the top 50 MSAs, with a secondary focus on the next 100 markets;
- § operate under leading franchise brands, which may include but are not limited to Marriott, Hilton, InterContinental and Hyatt;
- § are located in close proximity to multiple demand generators, including businesses and corporate headquarters, retail centers, airports, medical facilities, tourist attractions and convention centers, with a diverse source of potential guests, including corporate, government and leisure travelers;
- § are located in markets exhibiting barriers to entry due to strong franchise areas of protection or other factors;

## **Table of Contents**

§ can be acquired at a discount to replacement cost; and

§ provide an opportunity to add value through operating efficiencies, repositioning, renovating or rebranding.

*Selective Hotel Development.* We believe there will be attractive opportunities to partner on a selective basis with experienced hotel developers to acquire upon completion newly constructed hotels that meet our investment criteria.

*Strategic Hotel Sales.* Our strategy is to acquire and own hotels. However, consistent with our strategy of maximizing the cash flow of our portfolio and our return on invested capital, we periodically review our hotels to determine if any significant changes to area markets or our hotels have occurred or are anticipated to occur that would warrant the sale of a particular hotel.

## **Our Industry and Market Opportunity**

We focus on hotels in the upscale and midscale without food and beverage segments of the lodging industry.

We believe that our focus on these segments provides us the opportunity to achieve stronger risk-adjusted returns across multiple lodging cycles than if we owned hotels in other segments of the lodging industry for several reasons, including:

*RevPAR Growth.* Colliers PKF Hospitality Research forecasts that our two market segments will experience among the largest amount of RevPAR growth of any segment in the industry.

*Consistently Strong and Growing Demand.* Over the last twenty years, our market segments have demonstrated the strongest compounded growth in demand of all segments of the lodging industry, and strong demand growth is expected to continue.

*More Stable Cash Flow Potential.* Our hotels can be operated with fewer employees than full-service hotels that offer more expansive food and beverage options, which we believe enables us to generate more consistent cash flows with less volatility resulting from reductions in RevPAR and less dependence on group travel.

*Broad Customer Base.* Our target brands deliver consistently high-quality hotel accommodations with value-oriented pricing that we believe appeals to a wider range of customers, including both business and leisure travelers, than more expensive full-service hotels. We believe that our hotels are particularly popular with frequent business travelers who seek to stay in hotels operating under Marriott, Hilton, Hyatt or InterContinental brands, which offer strong loyalty rewards program points that can be redeemed for family travel.

*Enhanced Diversification.* Premium-branded limited-service and select-service assets generally cost significantly less, on a per-key basis, than hotels in the midscale with food and beverage, upper upscale and luxury segments of the industry. As a result, we can diversify our ownership into a larger number of hotels than we could in other segments.

*Lodging Industry Fundamentals.* Beginning in August 2008, the U.S. lodging industry experienced 19 consecutive months of RevPAR declines, as measured against the same month in the prior year, driven by a combination of deterioration in room-night demand and increasing supply. Although the lodging industry has historically lagged broader economic recoveries, economic fundamentals are beginning to improve from the recent declines resulting from the recessionary environment. In September 2010, the U.S. unemployment rate continued to show improvement

from its high in late 2009. After continuing declines for almost two years prior, September 2010 marked the U.S. lodging industry's seventh consecutive month of positive year-over-year RevPAR growth with an 8.8% increase.

According to Smith Travel Research, RevPAR increased 4.3% and 2.2% in our target upscale and midscale without food and beverage segments, respectively, for the first eight months of 2010 as compared to the same period of 2009, and we expect RevPAR growth to continue as the U.S. economy continues to strengthen. Colliers PKF Hospitality Research currently projects RevPAR growth of upscale hotels to be 4.2% in 2011, 11.1% in 2012 and 9.5% in 2013 and RevPAR growth of midscale without food and beverage hotels to be 5.9% in 2011, 12.2% in 2012 and 10.9% in 2013, among the highest in any industry segment. We expect that our hotels, and particularly our unseasoned hotels, will realize significant RevPAR gains as the economy and lodging industry improve.

*Demand Overview.* Room-night demand in the U.S. lodging industry is directly correlated to macroeconomic trends. Key drivers of demand include growth in gross domestic product, or GDP, corporate profits, capital investments and employment. Following periods of recession, recovery in room-night demand for lodging historically has lagged improvements in the overall economy.

## **Table of Contents**

*Supply Overview.* Growth in lodging supply typically lags growth in room-night demand. Key drivers of lodging supply include the availability and cost of capital, construction costs, local real estate market conditions and availability and pricing of existing properties. As a result of scarcity of financing, severe recession and declining operating fundamentals during 2008 and 2009, many planned hotel developments have been cancelled or postponed, and the number of rooms under construction and in planning has declined significantly. According to Lodging Econometrics, during the second quarter of 2010, approximately 68,000 new hotel rooms were under construction in the U.S., as compared to approximately 242,000 rooms under construction in the second quarter of 2008, a decline of 72%. New hotel construction is expected to remain below historical averages through 2014 according to Colliers PKF Hospitality Research.

*Attractive Transaction Landscape.* We believe that the significant decline in lodging fundamentals and subsequent declines in cash flows has created a difficult environment for hotel owners lacking ready access to financing or suffering from reduced cash flows due to declining industry fundamentals since 2008. As a result, we believe that the significant number of hotel properties experiencing substantial declines in operating cash flow, coupled with tight credit markets, near-term debt maturities and, in some instances, covenant defaults relating to outstanding indebtedness, will present attractive investment opportunities to acquire hotel properties at prices significantly below replacement cost, with substantial appreciation potential as the U.S. economy recovers from the current recession.

## **Our Formation Transactions**

Historically, the 65 hotels in our initial portfolio were owned or controlled by our predecessor and were managed by The Summit Group, which is wholly owned and controlled by our Executive Chairman, Mr. Boekelheide. We will engage in the transactions described below, which we refer to as our formation transactions, in order to consolidate the business of our predecessor into a publicly traded REIT.

- § We will sell \_\_\_\_\_ shares of our common stock in this offering.
  
- § We will contribute the net proceeds of this offering to our operating partnership in exchange for OP units. We will continue to be, through a wholly owned subsidiary, the sole general partner of our operating partnership and will own an approximate \_\_\_\_\_% ( \_\_\_\_\_% if the underwriters exercise their over-allotment option in full) partnership interest in our operating partnership upon completion of the formation transactions and this offering.
  
- § Our predecessor will merge with and into our operating partnership, which will be the survivor of the merger. Pursuant to the merger, our predecessor's members, including two of our executive officers and their affiliates as described below, will receive an aggregate of 9,993,992 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering, or IPO, price range shown on the cover of this prospectus. The total number of OP units to be issued to our predecessor's members in the merger reflects our predecessor's 100% ownership of 63 of our initial hotels prior to the merger and its ownership of a 49% Class A membership interest in Summit of Scottsdale, the owner of two Scottsdale, Arizona hotels prior to the merger. Of the 9,993,992 OP units to be issued in the merger, (1) our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, will receive an aggregate of 1,517,879 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus and (2) our Executive Vice President and Chief Operating Officer, Mr. Aniszewski, will receive an aggregate of 4,105 OP units having an aggregate value of \$ \_\_\_\_\_ based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus. The merger is subject to customary closing conditions, including obtaining all required third-party consents and approvals and completion of this offering. In addition to the OP units issued in the merger, our operating partnership will

issue 106,008 OP units pursuant to the Summit of Scottsdale transaction described below.

§ The Summit Group will contribute its 36% Class B membership interest in Summit of Scottsdale to our operating partnership in exchange for 74,829 OP units having an aggregate assumed value of \$ based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus. An unaffiliated third-party investor will contribute its 15% Class C membership interest in Summit of Scottsdale to our operating partnership in exchange for 31,179 OP units having an aggregate assumed value of \$ based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus. The contributions of the Class B and Class C membership interests in Summit of Scottsdale are subject to customary closing conditions, including obtaining all required third-party consents and approvals and completion of this offering.

Our predecessor owns a 49% Class A membership interest in Summit of Scottsdale, which our operating partnership will acquire in the merger. As a result of these contributions and the merger, our operating

**Table of Contents**

partnership will assume approximately \$13.8 million of existing mortgage debt secured by the Courtyard by Marriott and the SpringHill Suites by Marriott, both located in Scottsdale, Arizona, or the Scottsdale hotels, and will become the sole owner of the two Scottsdale hotels.

- § Upon completion of the merger and the contributions described above, our operating partnership will become the sole owner of our 65 initial hotels and will enter into new lease agreements with our TRS lessees with respect to the 65 hotels in our initial portfolio.
- § The Summit Group will assign all of the hotel management agreements pursuant to which it managed the hotels owned by our predecessor to Interstate for consideration payable to The Summit Group of \$12,750,000, and our TRS lessees will enter into a hotel management agreement with Interstate pursuant to which those hotels will be operated. Interstate has advised us that it expects to offer continued employment to nearly all of the employees of The Summit Group responsible for the day-to-day operations of our hotels prior to the formation transactions.
- § Our operating partnership intends to use the net proceeds of this offering as follows: (1) approximately \$225.2 million to repay or extinguish existing indebtedness that we will assume following completion of the formation transactions, including estimated costs related to debt repayment totaling approximately \$3.8 million; (2) approximately \$10.0 million to fund capital improvements at our initial hotels; and (3) the balance for general corporate and working capital purposes, including possible future acquisitions of hotels.

**Table of Contents**

**Our Structure**

The following diagram depicts our ownership structure immediately following completion of this offering and the formation transactions:

**Material Benefits to Related Parties**

Upon completion of this offering and the formation transactions, certain of our executive officers and directors will receive, either directly or indirectly, the financial and other benefits summarized below. For a more detailed discussion of these benefits see Management and Certain Relationships and Related Transactions.

**Table of Contents**

*Formation Transactions.* In connection with the formation transactions, Mr. Boekelheide, our Executive Chairman, and his affiliates, including The Summit Group, which is wholly owned and controlled by Mr. Boekelheide, and Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, will receive the following benefits:

<b>Name</b>	<b>Benefits Received</b>
<p>Kerry W. Boekelheide, <i>Executive Chairman and Director</i></p>	<p>In the formation transactions, Mr. Boekelheide and The Summit Group will receive an aggregate of 1,200,993 OP units, including: (1) 17,000 OP units to be issued to a revocable trust, the trustee and sole beneficiary of which is Mr. Boekelheide, in exchange for the trust's Class A membership interests in our predecessor; (2) 1,109,164 OP units to be issued to The Summit Group in the merger; and (3) 74,829 OP units to be issued to The Summit Group in exchange for its 36% Class B membership interest in Summit of Scottsdale. These OP units will represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have an aggregate value of \$ million based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus.</p> <p>In addition, entities affiliated with Mr. Boekelheide other than The Summit Group will receive an aggregate of 316,886 OP units. Mr. Boekelheide will share voting and investment power over these OP units with individuals who are not affiliated with us. These OP units will represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have a combined aggregate value of \$ million based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus.</p> <p>In consideration for assigning to them the existing hotel management agreements with our predecessor, The Summit Group will receive a cash payment from Interstate in the amount of \$12,750,000.</p>
<p>Craig J. Aniszewski, <i>Executive Vice President and Chief Operating Officer</i></p>	<p>In the merger, Mr. Aniszewski will receive an aggregate of 4,105 OP units in exchange for his Class B membership interests in our predecessor. These OP units represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have an aggregate value of \$ based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus.</p>

In addition to the OP units and other material benefits described above to be received in connection with the formation transactions, our executive officers will also benefit from the following:

- § employment agreements that will provide for salary, bonus and other benefits, including severance benefits in the event of a termination of employment in certain circumstances (see Management Employment Agreements );
- § options to purchase an aggregate of 940,000 shares of our common stock at the initial public offering price of the shares in this offering that will be granted to our named executive officers upon completion of this



offering pursuant to the 2010 Equity Incentive Plan (see Management Executive Compensation );

§ agreements providing for indemnification by us for certain liabilities and expenses incurred as a result of actions brought, or threatened to be brought, against them as an officer and/or director of our company (see Management Indemnification Agreements and Material Provisions of Maryland Law and of Our Charter and Bylaws ); and

§ redemption and registration rights under our operating partnership s partnership agreement with respect to OP units to be issued in the formation transactions (see Description of the Partnership Agreement ).

Furthermore, in connection with the formation transactions, our operating partnership will offer to enter into tax protection agreements with a limited number of the members of our predecessor, including The Summit Group. See Formation Transactions Tax Protection Agreements.

## **Table of Contents**

### **Our Financing Strategy**

We expect to maintain a prudent capital structure and intend to limit the sum of the outstanding principal amount of our consolidated net indebtedness to not more than 5.5x of our earnings before interest, tax, depreciation and amortization, or EBITDA, for the 12-month period preceding the incurrence of such debt. Over time, we intend to finance our long-term growth with common and preferred equity issuances and debt financing having staggered maturities. Our debt may include mortgage debt secured by hotels and unsecured debt.

Following completion of this offering, we anticipate entering into a credit facility to fund future acquisitions, as well as for property redevelopments, capital expenditures and working capital requirements. We may not succeed in obtaining a credit facility on favorable terms or at all. We cannot predict the size of the credit facility if we are able to obtain one.

When purchasing hotel properties, we may issue OP units as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common stock.

### **Conflicts of Interest**

Following completion of this offering and the formation transactions, there will be conflicts of interest between the holders of OP units, including certain of our executive officers and directors, and our stockholders with respect to certain transactions. In addition to their ownership of OP units, these executive officers and directors may have conflicting duties because, in their capacities as our executive officers and directors, they have a duty to us and our stockholders, while at the same time, we, through our wholly owned subsidiary that serves as the general partner of our operating partnership, have a fiduciary duty to the limited partners. Conflicts may arise when the interests of our stockholders and the limited partners of our operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners. For example, the sale of any of the hotels in our portfolio or the repayment of indebtedness may have different tax consequences to holders of OP units as compared to our stockholders. The amended and restated limited partnership agreement of our operating partnership contains a provision that in the event of a conflict of interest between our stockholders and the limited partners of our operating partnership, as general partner we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners of our operating partnership, and, if we, in our sole discretion as general partner of our operating partnership, determine that a conflict cannot be resolved in a manner not adverse to our stockholders and the limited partners of our operating partnership, the conflict will be resolved in favor of our stockholders.

Both we and our predecessor have sought to structure the formation transactions so as to minimize potential conflicts of interest, including by appointing a special committee of our predecessor's independent managers to review the terms of the proposed merger of our predecessor into our operating partnership. However, we did not conduct arm's-length negotiations with our predecessor's members or the members of Summit of Scottsdale with respect to the terms of the formation transactions, including the merger. Our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, have substantial, pre-existing ownership interests in our predecessor and Summit of Scottsdale. In addition, Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, has a pre-existing ownership interest in our predecessor. Both Mr. Boekelheide and Mr. Aniszewski sat on the board of managers of our predecessor that approved the terms of the formation transactions. In the course of structuring the formation transactions, Mr. Boekelheide and Mr. Aniszewski had the ability to influence the type and level of benefits they will receive from us. Although our predecessor's special committee received a fairness opinion from an independent third-party financial advisor that is not one of the underwriters of this offering with respect to the fairness, from a

financial point of view, of the merger consideration to the former members of our predecessor, assuming that the value of the OP units issued as the merger consideration was between \$140 million and \$160 million, we did not obtain a fairness opinion with respect to the fairness of the merger consideration to us and we did not obtain recent third-party appraisals for all of the hotels to be acquired by us in the formation transactions. As a result, the consideration to be paid by us to the members of our predecessor in the merger for our predecessor's 63 hotels and its 49% ownership interest in the two Scottsdale hotels may exceed the fair market value of the hotels and other assets being acquired by us in the formation transactions or the price that would have been paid in an arm's-length transaction.

### **Our Tax Status**

We intend to elect to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code, as amended, or the Code, relating to, among other things, the sources of our gross income, the composition and values of

## **Table of Contents**

our assets, our distribution levels and the diversity of ownership of our shares of capital stock. We believe that we will be organized in conformity with the requirements for qualification as a REIT under the Code and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010 and continuing thereafter.

In order for the income from our hotel operations to constitute rents from real property for purposes of the gross income tests required for REIT qualification, we cannot directly operate any of our hotel properties. Instead, we must lease our hotel properties. Accordingly, we will lease each of our hotel properties to one of our TRS lessees, which will be wholly owned by our operating partnership. Our TRS lessees will pay rent to us that can qualify as rents from real property, provided that the TRS lessees engage eligible independent contractors to manage our hotels. A TRS is a corporate subsidiary of a REIT that jointly elects with the REIT to be treated as a TRS of the REIT and that pays federal income tax at regular corporate rates on its taxable income. We expect that all of the hotels in our portfolio will be leased to one of our TRS lessees, which will be able to pay us rent out of the revenue of the hotels. Our TRS lessees will engage Interstate to manage the hotels in our initial portfolio. We believe Interstate will qualify as an eligible independent contractor.

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute currently to our stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we will be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS lessees will be fully subject to federal, state and local corporate income tax.

## **Distribution Policy**

To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See Material Federal Income Tax Considerations. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Code, and we may be required to borrow money, sell assets or issue capital stock to satisfy the distribution requirements. Additionally, we may pay future distributions from the proceeds from this offering or other securities offerings.

We intend to make regular quarterly cash distributions to our stockholders, as more fully described below. We expect to pay our initial distribution with respect to the period commencing upon completion of this offering and ending March 31, 2011, based on a rate of \$ per share for a full quarter. On an annualized basis, this would equal approximately \$ per share, or an estimated initial annual dividend rate of approximately % based on the mid-point of the anticipated IPO price range shown on the cover of this prospectus. We do not intend to reduce the expected dividend per share if the underwriters' option to purchase additional shares is exercised.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors, including restrictions under applicable law and our loan agreements, capital requirements of our company and the REIT requirements of the Code. Distributions to

stockholders generally will be taxable to our stockholders as ordinary income, although a portion of such distributions may be designated by us as long-term capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of our distributions, see Material Federal Income Tax Considerations.

### **Restrictions on Ownership of Our Capital Stock**

In order to assist us in qualifying as a REIT, our charter, subject to certain exceptions, restricts the amount of shares of our capital stock that a person may beneficially or constructively own. Our charter provides that, subject to certain exceptions,

**Table of Contents**

no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. Our charter also prohibits any person from:

- § beneficially owning shares of our capital stock to the extent that such beneficial ownership would result in our being closely held within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of the taxable year);
- § transferring shares of our capital stock to the extent that such transfer would result in shares of our capital stock being beneficially owned by fewer than 100 persons (determined under the principles of Section 856(a)(5) of the Code);
- § beneficially or constructively owning shares of our capital stock to the extent such beneficial or constructive ownership would cause us to constructively own ten percent or more of the ownership interests in a tenant (other than a TRS) of our real property within the meaning of Section 856(d)(2)(B) of the Code; or
- § beneficially or constructively owning or transferring shares of our capital stock if such beneficial or constructive ownership or transfer would otherwise cause us to fail to qualify as a REIT under the Code, including, but not limited to, as a result of any hotel management companies failing to qualify as an eligible independent contractor under the REIT rules.

Our board of directors, in its sole discretion, may prospectively or retroactively exempt a person from certain of these limits and may establish or increase an excepted holder percentage limit for such person. The person seeking an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate in order to conclude that granting the exemption will not cause us to lose our status as a REIT.

**Our Corporate Information**

We were formed as a Maryland corporation on June 30, 2010 and intend to elect and qualify to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010. Our corporate offices are located at 2701 South Minnesota Avenue, Suite 6, Sioux Falls, South Dakota 57105. Our telephone number is (605) 361-9566. Our website is *www.shpreit.com*. The information contained on, or accessible through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

**Table of Contents****The Offering**

Common stock offered by us	shares
Common stock to be outstanding after this offering and the formation transactions	shares <sup>(1)</sup>
Common stock and OP units to be outstanding after this offering and the formation transactions	shares and OP units <sup>(2)</sup>
Use of proceeds	<p>We estimate that we will receive net proceeds from this offering of approximately \$ million, or approximately \$ million if the underwriters' over-allotment option is exercised in full, after deducting the underwriting discounts and commissions and estimated expenses of this offering. We intend to use the net proceeds of this offering as follows: (1) approximately \$ million to repay or extinguish existing indebtedness that we will assume upon completion of the formation transactions, including estimated related costs totaling approximately \$ million; (2) approximately \$10.0 million to fund capital improvements at our hotels; and (3) the balance for general corporate and working capital purposes, including possible future hotel acquisitions. See Use of Proceeds for additional information.</p>
Ownership and transfer restrictions	<p>In order to assist us in qualifying as a REIT, our charter provides that, subject to certain exceptions, no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of our common stock and places certain other restrictions on ownership of our stock.</p>
Proposed NYSE symbol	INN
(1) Immediately prior to the closing of this offering, we will have a total of 1,000 shares of common stock outstanding. We sold these shares to our Executive Chairman, Mr. Boekelheide, in connection with our formation and initial capitalization for total consideration of \$1,000. At the closing of this offering, we will repurchase these shares from Mr. Boekelheide for \$1,000. The number of shares of common stock to be outstanding immediately after the repurchase of these shares and the closing of this offering includes:	
(i) shares of common stock to be sold in this offering and (ii) an aggregate of 4,000 shares of common stock to be issued to our independent director nominees pursuant to the 2010 Equity Incentive Plan upon completion of this offering. The number of shares of common stock to be outstanding immediately after the closing of this offering excludes: (i) up to shares of common stock issuable upon exercise of the underwriters' over-allotment option; (ii) an aggregate of 940,000 shares of common stock issuable upon exercise of options that we will grant to our Executive Chairman, Mr. Boekelheide, our President and Chief Executive Officer, Daniel P. Hansen, our Executive Vice President and Chief Operating Officer, Mr. Aniszewski, our Executive Vice President and Chief Financial Officer, Stuart J. Becker, and our Vice President of Acquisitions, Ryan A. Bertucci, pursuant to the 2010 Equity Incentive Plan upon completion of this offering; (iii) 904,217 additional shares of common stock available for future issuance under the 2010 Equity Incentive Plan; and (iv) up to 10,100,000 shares of common stock issuable upon redemption of the 10,100,000 OP units to be issued by our operating partnership in the formation transactions.	

- (2) Includes all of the shares of common stock identified in the third sentence of footnote (1) above, and 10,100,000 OP units to be issued in the formation transactions to our predecessor's former members and the former Class B and Class C members of Summit of Scottsdale in exchange for their membership interests in those entities. Pursuant to the limited partnership agreement of our operating partnership, limited partners, other than us, will have redemption rights which will enable them to cause our operating partnership to redeem their OP units in exchange for cash or, at our operating partnership's option, shares of our common stock on a one-for-one basis. The number of shares of common stock issuable upon redemption of OP units may be adjusted upon the occurrence of certain events described under Description of the Partnership Agreement Redemption Rights.



**Table of Contents**

**Summary Pro Forma Financial Information**

You should read the following summary pro forma financial and operating data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our unaudited pro forma condensed consolidated financial statements and our predecessor's consolidated financial statements, including the related notes, appearing elsewhere in this prospectus.

The following unaudited summary pro forma financial information is presented to reflect:

- § the initial public offering of \_\_\_\_\_ shares of our common stock in this offering at \$ \_\_\_\_\_ per share, the mid-point of the anticipated IPO price range shown on the cover of this prospectus, for approximately \$260.2 million of estimated net proceeds, after the deduction of the underwriting discount and the payment by us of approximately \$3.6 million of expenses related to this offering and the formation transactions;
- § the merger of our predecessor with and into our operating partnership, with our predecessor as the acquirer for accounting purposes, and the issuance by our operating partnership of an aggregate of 9,993,992 OP units to the Class A, Class A-1, Class B and Class C members of our predecessor in exchange for their membership interests in our predecessor;
- § the contribution to our operating partnership of the Class B and Class C membership interests in Summit of Scottsdale held by The Summit Group and an unaffiliated third-party investor in exchange for an aggregate of 106,008 OP units;
- § the contribution of the net proceeds of this offering to our operating partnership in exchange for OP units that represent an approximate \_\_\_\_\_ % partnership interest in our operating partnership, including the sole general partnership interest;
- § the repayment or extinguishment of approximately \$225.2 million of outstanding indebtedness and the payment of estimated costs and expenses of approximately \$3.8 million in connection with the retirement of this indebtedness; and
- § the grant upon completion of this offering of an aggregate of 4,000 shares of our common stock to our independent director nominees and options to purchase an aggregate of 940,000 shares of our common stock to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan.

Following completion of the merger, the historical consolidated financial statements of our predecessor will become our historical consolidated financial statements, and our assets and liabilities will be recorded at their respective historical carrying values as of the date of completion of the merger.

The unaudited pro forma balance sheet data appearing below assumes that each of these transactions occurred on June 30, 2010. The unaudited pro forma statements of operations and other operating data assume that each of these transactions occurred on January 1, 2009.

In the opinion of our management, all material adjustments to reflect the effects of the preceding transactions have been made. The unaudited pro forma balance sheet data is presented for illustrative purposes only and is not necessarily indicative of what our actual financial position would have been had the transactions referred to above occurred on June 30, 2010, nor does it purport to represent our future financial position. The unaudited pro forma condensed statements of operations and other operating data are presented for illustrative purposes only and are not

necessarily indicative of what our actual results of operations would have been had the transactions referred to above occurred on January 1, 2009, nor do they purport to represent our future results of operations.

**Table of Contents**

The following table presents summary unaudited pro forma balance sheet data as of June 30, 2010 (dollars in thousands):

	<b>Pro Forma as of June 30, 2010 (unaudited)</b>
Cash and cash equivalents	\$ 34,287
Property and equipment, net	\$ 460,632
Total assets	\$ 534,284
Mortgages and notes payable	\$ 199,440
Total liabilities	\$ 211,417
Stockholders' equity	\$ 256,015
Noncontrolling interest	\$ 66,852
Total liabilities and equity	\$ 534,284

The following table presents summary unaudited pro forma statement of operations and other data for the six months ended June 30, 2010 and for the year ended December 31, 2009 (dollars in thousands, except per-share data):

	<b>Pro Forma Six Months Ended June 30, 2010 (unaudited)</b>	<b>Pro Forma Year Ended December 31, 2009 (unaudited)</b>
<b>Statement of Operations Data:</b>		
<b>Revenue</b>		
Room revenues	\$ 65,939	\$ 118,960
Other hotel operations revenues	1,273	2,240
<b>Total Revenue</b>	<b>67,212</b>	<b>121,200</b>
<b>Expenses<sup>(1)</sup></b>		
Hotel operating expenses:		
Rooms	20,048	36,720
Other direct	8,287	18,048
Other indirect	18,303	33,499
Other	302	681
Total hotel operating expenses	46,940	88,948
Depreciation and amortization	13,288	23,088
Corporate general and administrative:		
Salaries and other compensation	1,683	3,564
Equity-based compensation		
Other	916	1,633
Hotel property acquisition costs	56	1,389

Loss on impairment of assets		7,506
<b>Total expenses</b>	<b>62,883</b>	<b>126,128</b>
<b>Income (loss) from operations</b>	<b>4,329</b>	<b>(4,928)</b>
Other Income (expense):		
Interest income	24	50
Interest expense	(5,199)	(9,052)
Loss on disposal of assets	(40)	(4)
<b>Total other expense</b>	<b>(5,215)</b>	<b>(9,006)</b>
<b>Loss from continuing operations</b>	<b>(886)</b>	<b>(13,934)</b>
<b>Net loss before income taxes</b>	<b>(886)</b>	<b>(13,934)</b>
Income tax expense	(500)	(840)
<b>Net loss</b>	<b>\$ (1,386)</b>	<b>\$ (14,774)</b>

**Table of Contents**

	<b>Pro Forma Six Months Ended June 30, 2010 (unaudited)</b>	<b>Pro Forma Year Ended December 31, 2009 (unaudited)</b>
Net loss attributable to noncontrolling interest	\$ (485)	\$ (5,171)
Net loss attributable to common shareholders	(901)	(9,603)
Pro forma net income (loss) per common share:		
Basic		
Diluted		
Pro forma weighted-average number of shares outstanding:		
Basic		
Diluted		
<b>Other Data:</b>		
FFO <sup>(2)</sup>	\$ 11,902	\$ 8,314
EBITDA <sup>(3)</sup>	\$ 17,577	\$ 15,482

(1) Historically, our predecessor segregated its operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) from its other operating expenses, such as depreciation and amortization and impairment losses. Following completion of this offering, we intend to reclassify our operating expenses into categories of hotel operating expenses (room expenses, other direct expenses, other indirect expenses and other expenses) and reclassify our predecessor's historical items of hotel operating expense to increase the comparability of our hotel operating expenses and our hotel operating results with those of other publicly traded hospitality REITs. Accordingly, historical balances included in our predecessor's:

- § direct hotel operations expense related to (1) wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast will be reclassified to rooms expense in our consolidated statements of operations and (2) franchise fees will be reclassified to other indirect expense in our consolidated statements of operations;
- § other hotel operating expenses related to (1) utilities and telephone will be reclassified to other direct expenses in our consolidated statements of operations and (2) real and personal property taxes, insurance and cable will be reclassified to other indirect expenses in our consolidated statements of operations;
- § general, selling and administrative expenses related to (1) office supplies, advertising, miscellaneous operating expenses and bad debt expense will be reclassified to other direct expenses in our consolidated statements of operations, (2) credit card/travel agent commissions, management company expenses, management company legal and accounting fees and franchise fees will be reclassified to other indirect expenses in our consolidated statements of operations, (3) hotel development and startup costs will be reclassified to hotel property acquisition costs in our consolidated statements of operations and (4) ground rent and other miscellaneous expenses will be reclassified to other expenses in our consolidated statements of operations; and
- § repairs and maintenance will be reclassified to other direct expenses in our consolidated statements of operations.

On a pro forma basis, the reclassification reduces total hotel operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) by \$56,000 for the six months ended June 30, 2010 and \$1.4 million for the year ended December 31, 2009, which were reclassified to hotel operating costs. The reclassification does not impact amounts reported by our predecessor as total expenses (total hotel operating expenses, depreciation and amortization and loss on impairment of assets),

income from operations, total other income, income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) before income taxes or net income (loss). See Unaudited Pro Forma Condensed Consolidated Financial Statements for additional information.

- (2) As defined by the National Association of Real Estate Investment Trusts, or NAREIT, funds from operations, or FFO, represents net income or loss (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate depreciation and amortization (excluding amortization of deferred financing costs). We present FFO because we consider it an important supplemental measure of our operational performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, room rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. We caution investors that amounts presented in accordance with our definitions of FFO may not be comparable to similar measures disclosed by other companies, since not all companies calculate this non-GAAP measure in the same manner. FFO should not be considered as an alternative measure of our net income (loss) or operating performance. FFO may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that FFO can enhance your understanding of our financial condition and results of operations, this non-GAAP financial measure is not necessarily a better indicator of any trend as compared to a comparable GAAP measure such as net income (loss). Below, we include a quantitative

**Table of Contents**

reconciliation of pro forma FFO to the most directly comparable GAAP financial performance measure, which is pro forma net income (loss) (dollars in thousands):

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Pro Forma Year Ended December 31, 2009</b>
Net loss	\$ (1,386)	\$ (14,774)
Depreciation and amortization	13,288	23,088
FFO	\$ 11,902	\$ 8,314

(3) EBITDA represents net income or loss, excluding: (i) interest, (ii) income tax expense and (iii) depreciation and amortization. We believe EBITDA is useful to an investor in evaluating our operating performance because it provides investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our asset base (primarily depreciation and amortization) from our operating results. Our management also uses EBITDA as one measure in determining the value of acquisitions and dispositions. We caution investors that amounts presented in accordance with our definitions of EBITDA may not be comparable to similar measures disclosed by other companies, since not all companies calculate this non-GAAP measure in the same manner. EBITDA should not be considered as an alternative measure of our net income (loss) or operating performance. EBITDA may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that EBITDA can enhance your understanding of our financial condition and results of operations, this non-GAAP financial measure is not necessarily a better indicator of any trend as compared to a comparable GAAP measure such as net income (loss). Below, we include a quantitative reconciliation of pro forma EBITDA to the most directly comparable GAAP financial performance measure, which is pro forma net income (loss) (dollars in thousands):

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Pro Forma Year Ended December 31, 2009</b>
Net loss	\$ (1,386)	\$ (14,774)
Interest income	(24)	(50)
Interest expense	5,199	9,052
Income tax expense	500	840
Depreciation and amortization	13,288	23,088
EBITDA	\$ 17,577	\$ 18,156

**Table of Contents**

**Risk Factors**

*An investment in our common stock involves risks. Before making an investment decision, you should carefully consider the following risk factors, which address the material risks concerning our business and an investment in our common stock, together with the other information contained in this prospectus. If any of the risks discussed in this prospectus were to occur, our business, prospects, financial condition, results of operation and our ability to service our debt and make distributions to our stockholders could be materially and adversely affected, the market price per share of our common stock could decline significantly and you could lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled *Cautionary Note Regarding Forward-Looking Statements*.*

**Risks Related to Our Business**

***Our business strategy depends significantly on achieving revenue and net income growth from anticipated increases in demand for hotel rooms any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.***

Our hotel properties experienced declining operating performance across various U.S. markets during the recent economic recession. Our business strategy depends significantly on achieving revenue and net income growth from anticipated improvement in demand for hotel rooms as part of a future economic recovery. We, however, cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens further, our operating results and growth prospects could be adversely affected. In particular, we already have reduced our operating expenses significantly in response to the recent economic recession and our ability to reduce operating expenses further to improve our operating performance is limited. As a result, any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.

***Our unseasoned hotels have limited, if any, operating history and may not achieve the operating performance we anticipate, and as a result, our overall returns may not improve as we expect or may decline.***

Our unseasoned hotels have experienced extended stabilization periods as a result of the significant decline in general economic conditions. Consequently, many of these hotels continue to generate negative cash flow beyond our original expectations for them. Significant increases in anticipated hotel room supply or decreases in hotel room demand in the markets where any one or more of our unseasoned hotels are located could cause the operating performance of those hotels to be below our original plans for them. If macroeconomic conditions or conditions specific to their markets do not improve significantly or our anticipated improved results for these hotels do not otherwise materialize, our overall returns may not improve as we expect or may decline.

***We have no operating history as a publicly traded REIT and may not be successful in operating as a publicly traded REIT, which may adversely affect our ability to make distributions to our stockholders.***

We have no operating history as a publicly traded REIT. The REIT rules and regulations are highly technical and complex. We cannot assure you that our management team's past experience will be sufficient to successfully operate our company as a publicly traded REIT, implement appropriate operating and investment policies and comply with Code or Treasury Regulations that are applicable to us. Failure to comply with the income, asset, and other requirements imposed by the REIT rules and regulations could prevent us from qualifying as a REIT, and could force us to pay unexpected taxes and penalties which may adversely affect our ability to make distributions to our



stockholders.

***Our success depends on key personnel whose continued service is not guaranteed.***

We depend on the efforts and expertise of our management team to manage our day-to-day operations and strategic business direction. The loss of services from any of the members of our management team, particularly our Executive Chairman, Mr. Boekelheide, and our President and Chief Executive Officer, Daniel P. Hansen, and our inability to find suitable replacements on a timely basis could have an adverse effect on our operations.

**Table of Contents**

***We may be unable to complete acquisitions that would grow our business.***

Our growth strategy includes the disciplined acquisition of hotels as opportunities arise. Our ability to acquire hotels on satisfactory terms or at all is subject to the following significant risks:

- § we may be unable to acquire or may be forced to acquire at significantly higher prices desired hotels because of competition from other real estate investors with more capital, including other real estate operating companies, REITs and investment funds;
- § we may be unable to obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms; and
- § agreements for the acquisition of hotels are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and we may spend significant time and money on potential acquisitions that we do not consummate.

If we cannot complete hotel acquisitions on favorable terms or at all, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and make distributions to our stockholders could be materially and adversely affected.

***We may not be able to acquire the hotel we have under a letter of intent.***

We have not entered into a definitive purchase agreement for the 216-room hotel located in downtown Minneapolis, Minnesota that we have under a letter of intent. The letter of intent is non-binding and we cannot assure you that we will be able to enter into a definitive purchase agreement on favorable terms, or at all, or, if we enter into a definitive agreement, that we will complete this acquisition. Any definitive purchase agreement would be subject to a number of conditions to completion.

***We may fail to successfully integrate and operate newly acquired hotels.***

Our ability to successfully integrate and operate newly acquired hotels is subject to the following risks:

- § we may not possess the same level of familiarity with the dynamics and market conditions of any new markets that we may enter, which could result in us paying too much for hotels in new markets;
- § market conditions may result in lower than expected occupancy rates and lower than expected room rates;
- § we may acquire hotels without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the hotels and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the hotels.
- § we may need to spend more than budgeted amounts to make necessary improvements or renovations to our newly acquired hotels; and
- § we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of hotels, into our existing operations.

If we cannot operate acquired hotels to meet our goals or expectations, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and make distributions to our stockholders could be materially and adversely affected.

*We may not succeed in managing our growth, in which case our financial results could be adversely affected.*

Our ability to grow our business depends upon our management team's business contacts and their ability to successfully hire, train, supervise and manage additional personnel. We may not be able to hire and train sufficient personnel or develop management, information and operating systems suitable for our expected growth. If we are unable to manage any future growth effectively, our operations and financial results could be adversely affected.

*Upon completion of this offering and the formation transactions, the management of all of the hotels in our initial portfolio will be concentrated in one hotel management company.*

Upon completion of this offering and the formation transactions, all of the hotels in our initial portfolio will be operated by Interstate. This significant concentration of credit and operational risk in one hotel management company makes us more vulnerable economically than if we entered into hotel management agreements with several hotel management

**Table of Contents**

companies. Any adverse developments in Interstate's business and affairs, financial strength or ability to operate our hotels efficiently and effectively could have a material adverse effect on our results of operations. We cannot assure you that Interstate will have sufficient assets, income and access to financing and insurance coverage to enable it to satisfy its obligations to us or effectively and efficiently operate our initial hotel properties. The failure or inability of Interstate to satisfy its obligations to us or effectively and efficiently operate our initial hotel properties would materially reduce our revenues and net income, which could in turn reduce the amount of our distributable cash and cause the market price per share of our common stock to decline.

***Termination of our hotel management agreement with Interstate may cause us to pay substantial termination fees or to experience significant disruptions at the affected hotels.***

If we replace Interstate as the hotel manager of any of our hotels, we may be required to pay a substantial termination fee and we may experience significant disruptions at the affected hotel. If we experience disruptions at the affected hotel, our financial condition, results of operations and our ability to service debt and make distributions to our stockholders could be materially and adversely affected.

***Restrictive covenants in hotel management and franchise agreements could preclude us from taking actions with respect to the sale or refinancing of a hotel that would otherwise be in our best interest.***

Hotel management and franchise agreements typically contain restrictive covenants that do not provide us with flexibility to sell or refinance a hotel without the consent of a manager or franchisor. For example, the terms of some of these agreements may restrict our ability to sell a hotel unless the purchaser is not a competitor of the hotel management company, assumes the related agreement and meets specified other conditions. We could be forced to pay consent or possibly termination fees to hotel managers or franchisors under these agreements. As a result of these types of restrictive covenants, we may be precluded from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense.

***We may not be able to cause our hotel management companies to operate any of our hotels in a manner satisfactory to us, which could adversely affect our financial condition, results of operations and our ability to service debt and make distributions to our stockholders.***

To qualify as a REIT, we cannot operate our hotels. We will lease our hotels to our TRS lessees, which will, in turn, enter into hotel management agreements with hotel management companies, such as Interstate, that qualify as eligible independent contractors to operate our hotels. As a result, our financial condition, results of operations and our ability to service debt and make distributions to stockholders are dependent on the ability of Interstate and any other hotel management companies that we may retain in the future to operate our hotels successfully. Any failure by our hotel management companies to provide quality services and amenities or maintain a quality brand name and reputation could have a negative impact on their ability to operate our hotels and could have a material and adverse affect our financial condition, results of operations and our ability to service debt and make distributions to our stockholders.

We cannot and will not control the hotel management companies that operate and are responsible for maintenance and other day-to-day management of our hotels, including, but not limited to, the implementation of significant operating decisions. We cannot assure you that our hotel management companies will manage our properties in a manner that is consistent with their obligations under the management agreement or our obligations under our hotel franchise agreements, that our hotel management companies will not be negligent in their performance or engage in other criminal or fraudulent activity, or that they will not otherwise default on their management obligations to us. If any of the foregoing occurs, our relationships with the franchisors may be damaged and we may then be in breach of the franchise agreements, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties, any of which could have a material adverse effect on our operating results and financial condition, as well

as our ability to pay dividends to stockholders.

Even if we believe a hotel is being operated inefficiently or in a manner that does not result in satisfactory operating results, we will have limited ability to require the hotel management company to change its method of operation. We generally will attempt to resolve issues with our hotel management companies through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate the dispute or submit the matter to third-party dispute resolution or arbitration. We would only be able to seek redress if a hotel management company violates the terms of the applicable hotel management agreement, and then only to the extent of the remedies provided for under the terms of the hotel management agreement. Our hotel managers or their affiliates

**Table of Contents**

manage, and in some cases own, have invested in, or provided credit support or operating guarantees to hotels that compete with our hotels, all of which may result in conflicts of interest. As a result, our hotel managers may in the future make decisions regarding competing lodging facilities that are not or would not be in our best interest.

***Funds spent to maintain franchisor operating standards, the loss of a franchise license or a decline in the value of a franchise brand may have a material adverse effect on our business and financial results.***

Our hotels operate under franchise agreements, and the maintenance of franchise licenses for our hotels is subject to our franchisors' operating standards and other terms and conditions. We expect that franchisors will periodically inspect our hotels to ensure that we, our TRS lessees and our hotel management companies maintain our franchisors' standards. Failure by us, our TRS lessees or any of our hotel management companies to maintain these standards or other terms and conditions could result in a franchise license being canceled. If a franchise license terminates due to our failure to make required improvements or to otherwise comply with its terms, we could also be liable to the franchisor for a termination payment, which varies by franchisor and by hotel. As a condition of our continued holding of a franchise license, a franchisor could also require us to make capital improvements to our hotels, even if we do not believe the improvements are necessary or desirable or would result in an acceptable return on our investment. Nonetheless, we may risk losing a franchise license if we do not make franchisor-required capital improvements.

If a franchisor terminated a franchise license, we could try either to obtain a suitable replacement franchise or to operate the hotel without a franchise license. The loss of a franchise license could materially and adversely affect the operations or the underlying value of the hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. A loss of a franchise license for one or more hotels, particularly if our hotels become concentrated in a limited number of franchise brands in the future, could materially and adversely affect our revenues. This loss of revenues could, therefore, also adversely affect our financial condition, results of operations and ability to service debt and make distributions to our stockholders.

Negative publicity related to one of the franchise brands or the general decline of a brand also may adversely affect the underlying value of our hotels or result in a reduction in business.

***We will rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital, we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.***

In order to qualify as a REIT under the Code, we will be required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. Because of this distribution requirement, we may not be able to fund, from cash retained from operations, all of our future capital needs, including capital needed to make investments and to satisfy or refinance maturing obligations.

We expect to rely on external sources of capital, including debt and equity financing, to fund future capital needs. Part of our strategy involves the use of additional debt financing to supplement our equity capital. Our ability to effectively implement and accomplish our business strategy will be affected by our ability to obtain and utilize additional leverage in sufficient amounts and on favorable terms. However, the recent U.S. and global economic slowdown has resulted in a capital environment characterized by limited availability of both debt and equity financing, increasing costs, stringent credit terms and significant volatility. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business, or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings

and cash distributions and the market price of the shares of our common stock. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

***We have a significant amount of debt, and our organizational documents have no limitation on the amount of additional indebtedness that we may incur in the future. As a result, we may become highly leveraged in the future, which could adversely affect our financial condition.***

As of June 30, 2010, after giving pro forma effect to this offering and the formation transactions, we would have had total outstanding indebtedness of approximately \$199.4 million, all of which would have been secured indebtedness. In the future, we may incur additional indebtedness to finance future hotel acquisitions and development activities and other corporate purposes. In addition, there are no restrictions in our charter or bylaws that limit the amount or percentage of

**Table of Contents**

indebtedness that we may incur nor restrict the form in which our indebtedness will be incurred (including recourse or non-recourse debt or cross-collateralized debt).

A substantial level of indebtedness could have adverse consequences for our business, results of operations and financial condition because it could, among other things:

- § require us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, thereby reducing our cash flow available to fund working capital, capital expenditures and other general corporate purposes, including to pay dividends on our common stock as currently contemplated or necessary to satisfy the requirements for qualification as a REIT;
- § increase our vulnerability to general adverse economic and industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- § limit our ability to borrow additional funds or refinance indebtedness on favorable terms or at all to expand our business or ease liquidity constraints; and
- § place us at a competitive disadvantage relative to competitors that have less indebtedness.

***The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.***

The agreements governing our indebtedness that will remain outstanding following completion of this offering and the formation transactions contain covenants that place restrictions on us and our subsidiaries. These covenants may restrict, among other activities, our and our subsidiaries' ability to:

- § merge, consolidate or transfer all or substantially all of our or our subsidiaries' assets;
- § sell, transfer, pledge or encumber our stock or the ownership interests of our subsidiaries;
- § incur additional debt or issue preferred stock;
- § enter into, terminate or modify leases for our hotels and hotel management and franchise agreements;
- § make certain expenditures, including capital expenditures;
- § pay dividends on or repurchase our capital stock; and
- § enter into certain transactions with affiliates.

These covenants could impair our ability to grow our business, take advantage of attractive business opportunities or successfully compete. Our ability to comply with financial and other covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A breach of any of these covenants or covenants under any other agreements governing our indebtedness could result in an event of default. Cross-default provisions in our debt agreements could cause an event of default under one debt agreement to trigger an event of default under our other debt agreements. Upon the occurrence of an event of default under any of our debt agreements, the lenders could elect to declare all outstanding debt under such agreements to be immediately due and payable. If we were unable to repay or refinance the accelerated debt, the lenders could proceed against any assets pledged to secure that debt, including foreclosing on or requiring the sale of our hotels, and the proceeds from the sale of these hotels



may not be sufficient to repay such debt in full.

***Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in any hotel subject to mortgage debt.***

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on secured indebtedness may result in foreclosure actions initiated by lenders and ultimately our loss of the hotels securing any loans for which we are in default. If we are in default under a cross-defaulted mortgage loan, we could lose multiple hotels to foreclosure. For tax purposes, a foreclosure of any of our hotels would be treated as a sale of the hotel for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the hotel, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. As we execute our business plan, we may assume or incur new mortgage indebtedness on the hotels in our portfolio or hotels that we acquire in the future. Any default under any one of our mortgage debt obligations may increase the risk of our default on our other indebtedness.

**Table of Contents**

***An increase in interest rates would increase our interest costs on our variable rate debt and could adversely impact our ability to refinance existing debt or sell assets.***

An increase in interest rates would increase our interest payments and reduce our cash flow available for other corporate purposes, including capital improvements to our hotels or acquisitions of additional hotels. In addition, rising interest rates could limit our ability to refinance existing debt when it matures and increase interest costs on any debt that is refinanced. Further, an increase in interest rates could increase the cost of financing, thereby decreasing the amount third parties are willing to pay for our hotels, which would limit our ability to dispose of hotels when necessary or desired. See Management's Discussion and Analysis of Financial Condition and Results of Operations Qualitative and Quantitative Effects of Market Risk.

Although we have not entered into any hedging arrangements, we may, from time to time, enter into agreements such as interest rate swaps, caps, floors and other interest rate hedging contracts. However, these agreements reduce, but do not eliminate, the impact of rising interest rates, and they also expose us to the risk that other parties to the agreements will not perform or that the agreements will be unenforceable.

***We may not be able to obtain a credit facility.***

We intend to enter into a credit facility following completion of this offering. We may not succeed in obtaining a credit facility on favorable terms or at all. We cannot predict the size or terms of the credit facility if we are able to obtain it. Our failure to obtain a credit facility could adversely affect our ability to grow our business and meet our obligations as they come due.

***Joint venture investments could be adversely affected by a lack of sole decision-making authority with respect to such investments.***

In the future we may enter into strategic joint ventures with unaffiliated investors to acquire, develop, improve or dispose of hotels, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. We may not have sole decision-making authority with respect to these investments, which may:

- § prevent us from taking actions that are opposed by our joint venture partners;
- § create impasses on major decisions, such as acquisitions or sales;
- § prevent us from selling our interests in the joint venture without the consent of our joint venture partners; or
- § subject us to liability for the actions of our joint venture partners.

***Joint venture investments could subject us to risks related to the financial condition of joint venture partners.***

If a joint venture partner becomes bankrupt or otherwise defaults on its obligations under a joint venture agreement, we and any other remaining joint venture partners would generally remain liable for the joint venture liabilities. Furthermore, if a joint venture partner becomes bankrupt or otherwise defaults on its obligations under a joint venture agreement, we may be unable to continue the joint venture other than by purchasing such joint venture partner's interests or the underlying assets at a premium to the market price. If any of the above risks are realized, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***We may have disputes with joint venture partners.***

Disputes between us and our joint venture partners may result in litigation or arbitration which could increase our expenses and prevent our officers and directors from focusing their time and effort on our business and could result in subjecting the hotels owned by the applicable joint venture to additional risks.

***Our tax protection agreements may require our operating partnership to maintain certain debt levels that otherwise would not be required to operate our business, which may impair our ability to generate cash available for distribution and otherwise not be in your best interests.***

We anticipate that the Class C member of our predecessor, The Summit Group, and certain Class B members of our predecessor may recognize a taxable deemed cash distribution in connection with the formation transactions unless affirmative measures are taken to cause special allocations of liabilities of our operating partnership to those members. Under the tax protection agreements, our operating partnership will provide those members with the opportunity to guarantee debt or enter into a deficit restoration obligation, both of which are intended to cause a special allocation of liabilities to those members to prevent them from recognizing a taxable deemed cash distribution. If our operating partnership fails to make those opportunities available, our operating partnership will be required to deliver to each such

## **Table of Contents**

member a cash payment intended to approximate that member's tax liability resulting from our operating partnership's failure to make such opportunities available to them. See Formation Transactions Tax Protection Agreements. Our operating partnership agreed to these provisions in order to assist those members in avoiding a taxable deemed cash distribution that may otherwise occur in connection with the formation transactions. These obligations may require our operating partnership to maintain more or different indebtedness than would otherwise have been required for our business, which could result in higher interest expense than we would prefer to incur, reducing cash available for distribution to stockholders.

### **Risks Related to the Lodging Industry**

#### ***Recent economic conditions may continue to adversely affect the lodging industry.***

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. gross domestic product, or GDP. The lodging industry is also sensitive to business and personal discretionary spending levels. Declines in corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions can lower the revenues and profitability of our assets and therefore the net operating profits of our investments. The recent economic downturn has led to a significant decline in demand for products and services provided by the lodging industry.

We anticipate that any recovery of demand for lodging services will lag an improvement in economic conditions. We cannot predict how severe or prolonged the global economic downturn will be or how severe or prolonged the downturn in the lodging industry will be. A further extended period of economic weakness could have an adverse impact on our revenues and negatively affect our profitability.

#### ***Competition from other upscale and midscale without food and beverage hotels in the markets in which we operate could have a material adverse effect on our results of operations.***

The lodging industry is highly competitive. Our hotels compete with other hotels for guests in each market in which our hotels operate based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered and quality of customer service. Competition will often be specific to the individual markets in which our hotels are located and includes competition from existing and new hotels. Our competitors may have an operating model that enables them to offer rooms at lower rates than we can, which, particularly in the current economic recession, could result in our competitors increasing their occupancy at our expense. Competition could adversely affect our occupancy, average daily rates, or ADRs, and RevPAR, and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which could reduce our profitability and could materially and adversely affect our results of operations.

#### ***Our investment opportunities and growth prospects may be affected by competition for investment opportunities.***

We compete for investment opportunities with other entities, some of which have substantially greater financial resources than we do. This competition may generally limit the number of suitable investment opportunities offered to us, which may limit our ability to grow. This competition may also increase the bargaining power of the owners of assets seeking to sell to us, making it more difficult for us to acquire new hotels on attractive terms or at all.

#### ***Our operating results and ability to make distributions to our stockholders may be adversely affected by the markets in which we operate.***

Our hotels will be subject to various operating risks within the markets in which we will operate. These risks include:

- § over-building of hotels in our markets, which could adversely affect occupancy and revenues at the hotels we acquire;
- § adverse effects of international, national, regional and local economic and market conditions; and
- § changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances.

***Our operating results and ability to make distributions to our stockholders may be adversely affected by the risks inherent to the ownership of hotels.***

Hotels have different economic characteristics than many other real estate assets. A typical office property owner, for example, has long-term leases with third-party tenants, which provide a relatively stable long-term stream of revenue.  
By

**Table of Contents**

contrast, our hotels will be subject to various operating risks common to the lodging industry, many of which are beyond our control, including the following:

- § dependence on business and commercial travelers and tourism;
- § increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- § increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- § events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu and severe acute respiratory syndrome, or SARS, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes and environmental disasters such as the oil spill in the Gulf of Mexico;
- § potential increases in labor costs at our hotels, including as a result of unionization of the labor force; and
- § adverse effects of a downturn in the lodging industry.

***We will have significant ongoing needs to make capital expenditures in our hotels, which will require us to devote funds to these purposes and could pose related risks that might impair our ability to make distributions to our stockholders.***

Our hotels will have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. Our franchisors also require periodic capital improvements as a condition of keeping the franchise licenses. In addition, lenders may require that we set aside annual amounts for capital improvements to our assets. These capital improvements and replacements may give rise to the following risks:

- § possible environmental problems;
- § construction cost overruns and delays;
- § a possible shortage of available cash to fund capital improvements and replacements and, the related possibility that financing for these capital improvements may not be available to us on affordable terms;
- § these capital improvements and replacements may not prove to be accretive to FFO; and
- § uncertainties as to market demand or a loss of market demand after capital improvements and replacements have begun.

If any of the above risks were to be realized, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Hotel development is subject to timing, budgeting and other risks. To the extent we develop hotels or acquire hotels that are under development, these risks may adversely affect our operating results and liquidity position.***

We may develop hotels or acquire hotels that are under development from time to time as suitable opportunities arise, taking into consideration general economic conditions. Hotel development involves a number of risks, including the

following:

- § possible environmental problems;
- § construction delays or cost overruns that may increase project costs;
- § receipt of zoning, occupancy and other required governmental permits and authorizations;
- § development costs incurred for projects that are not pursued to completion;
- § acts of God such as earthquakes, hurricanes, floods or fires that could adversely impact a project;
- § inability to raise capital; and
- § governmental restrictions on the nature or size of a project.

To the extent we develop hotels or acquire hotels under development, we cannot assure you that any development project will be completed on time or within budget. Our inability to complete a project on time or within budget may adversely affect our projected operating results and our liquidity position.

***The increasing use of Internet travel intermediaries by consumers may adversely affect our profitability.***

Our hotel rooms are likely to be booked through Internet travel intermediaries, including, but not limited to, Travelocity.com, Expedia.com and Priceline.com. As these Internet bookings increase, these intermediaries may be able to

## **Table of Contents**

obtain higher commissions, reduced room rates or other significant contract concessions from us and our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as three-star downtown hotel ) at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our hotels are franchised. If the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

### ***Uninsured and underinsured losses could adversely affect our operating results.***

We intend to maintain comprehensive insurance on our hotels, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by owners of hotels similar to our hotels. Various types of catastrophic losses, like earthquakes and floods, may not be insurable or may not be economically insurable. In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the asset. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate an asset after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotels.

### **Risks Related to the Real Estate Industry and Real Estate-Related Investments**

#### ***Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of hotels in which we may invest or to adjust our portfolio in response to changes in economic and other conditions, and, therefore, may harm our financial condition.***

In the future, we may decide to sell hotels. Real estate investments are relatively illiquid. Our ability to promptly sell one or more hotels in our portfolio in response to changing economic, financial and investment conditions may be limited. We cannot predict whether we will be able to sell any hotels for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of an asset. The real estate market is affected by many factors that are beyond our control, including:

- § adverse changes in international, national, regional and local economic and market conditions;
- § changes in interest rates and in the availability, cost and terms of debt financing;
- § changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- § the ongoing need for capital improvements, particularly in older structures, that may require us to expend funds to correct defects or to make improvements before an asset can be sold;
- § changes in operating expenses; and
- § civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of the terrorist acts such as those



that occurred on September 11, 2001.

***Increases in our property taxes would adversely affect our operating results and our ability to make distributions to our stockholders.***

Our hotels are subject to real and personal property taxes. These taxes may increase as tax rates change and as our hotels are assessed or reassessed by taxing authorities. If property taxes increase, our operating results and our ability to make distributions to our stockholders could be adversely affected.

***We could incur significant costs related to government regulation and litigation over environmental, health and safety matters.***

Our hotels and development parcels are subject to various federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of

## **Table of Contents**

the property, to perform or pay for the clean up of contamination (including hazardous substances, waste or petroleum products) at, on, under or emanating from the property and to pay for natural resource damages arising from contamination. These laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused the contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned a property at the time it became contaminated, we could incur cleanup costs or other environmental liabilities even after we sell properties. Contamination at, on, under or emanating from our properties also may expose us to liability to private parties for costs of remediation, personal injury and death and/or property damage. In addition, environmental liens may be created on contaminated sites in favor of the government for damages and costs it incurs to address contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

In addition, our hotels (including our real property, operations and equipment) are subject to various federal, state and local environmental, health and safety regulatory requirements that address a wide variety of issues, including, but not limited to, the registration, maintenance and operation of our boilers and storage tanks, the supply of potable water to our guests, air emissions from emergency generators, storm water and wastewater discharges, protection of natural resources, asbestos, lead-based paint, mold and mildew, and waste management. Some of our hotels also routinely handle and use hazardous or regulated substances and wastes as part of their operations, which are subject to regulation (for example, swimming pool chemicals or biological waste). Our hotels incur costs to comply with these environmental, health and safety laws and regulations and if these regulatory requirements are not met or unforeseen events result in the discharge of dangerous or toxic substances at our hotels, we could be subject to fines and penalties for non-compliance with applicable laws and material liability from third parties for harm to the environment, damage to real property or personal injury and death. We are aware of no past or present environmental liability for non-compliance with environmental, health and safety laws and regulations that we believe would have a material adverse effect on our business, assets or results of operations.

Certain hotels we currently own or those we acquire in the future contain, may contain, or may have contained, asbestos-containing material, or ACM. Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building. These laws regarding ACM may impose fines and penalties on building owners, employers and operators for failure to comply with these requirements or expose us to third-party liability.

### ***Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.***

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to material liability from third parties if property damage or personal injury occurs.

***Compliance with the laws, regulations and covenants that are applicable to our hotels, including permit, license and zoning requirements, may adversely affect our ability to make future acquisitions or renovations, result in significant costs or delays and adversely affect our growth strategy.***

Our hotels are subject to various covenants and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our hotels and may require us to obtain approval from local

## **Table of Contents**

officials or community standards organizations at any time with respect to our hotels, including prior to acquiring a hotel or when undertaking any renovations of any of our hotels. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. We cannot assure you that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our growth strategy may be materially and adversely affected by our ability to obtain permits, licenses and zoning approvals. Our failure to obtain such permits, licenses and zoning approvals could have a material adverse effect on our business, financial condition and results of operations.

In addition, federal and state laws and regulations, including laws such as the Americans with Disabilities Act of 1990, or the ADA, impose further restrictions on our operations. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our hotels may currently be in non-compliance with the ADA. If one or more of the hotels in our portfolio is not in compliance with the ADA or any other regulatory requirements, we may be required to incur additional costs to bring the hotel into compliance and we might incur damages or governmental fines. In addition, existing requirements may change and future requirements may require us to make significant unanticipated expenditures that would adversely impact our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

*If we default on ground leases for land on which four of our hotels are located, our business could be materially and adversely affected.*

Four of the 65 hotels in our initial portfolio are subject to ground leases. If we default under the terms of these ground leases and are unable to cure the default in a timely manner, we may be liable for damages and could lose our leasehold interest in the applicable property and interest in the hotel on the applicable property. If any of the events of default were to occur and are not timely cured, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions to our stockholders could be materially and adversely affected.

## **Risks Related to The Formation Transactions and Conflicts of Interest**

*Our Executive Chairman, Mr. Boekelheide, and other members of our management team exercised significant influence with respect to the terms of the formation transactions, including transactions in which they determined the compensation they would receive.*

The number of OP units issuable by our operating partnership in the formation transactions was determined by our management team based on its valuation of our predecessor and the hotels owned by our predecessor and Summit of Scottsdale. In each case, the assumed value per OP unit is equal to the mid-point of the anticipated IPO price range of our common stock shown on the cover of this prospectus. Our management team determined the value of our predecessor and these hotels by considering various valuation factors and methodologies, including an analysis of available third-party valuations on some of the hotels, market sales comparables, market capitalization rates and general market conditions for similar hotels. The numbers of OP units issuable in the formation transactions are fixed. As a result, if the IPO price for our common stock is higher or lower than the mid-point of the anticipated IPO price range shown on the cover of this prospectus, the value of the OP units to be issued in the formation transactions will increase or decrease accordingly.

Both we and our predecessor have sought to structure the formation transactions so as to minimize potential conflicts of interest, including by appointing a special committee of our predecessor's independent managers to review the terms of the proposed merger of our predecessor into our operating partnership. However, we did not conduct arm's-length

negotiations with our predecessor's members or the members of Summit of Scottsdale with respect to the terms of the formation transactions, including the merger. Our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, have substantial, pre-existing ownership interests in our predecessor and Summit of Scottsdale. In addition, Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, has a pre-existing ownership interest in our predecessor. Both Mr. Boekelheide and Mr. Aniszewski sat on the board of managers of our predecessor that approved the terms of the formation transactions. In the course of structuring the formation transactions, Mr. Boekelheide and Mr. Aniszewski had the ability to influence the type and level of benefits they will receive from us. In addition, although our predecessor's special committee received a fairness opinion from an independent third-party investment bank that is not one of the underwriters of this offering with respect to the fairness, from a financial point of view, of the merger consideration to the former members of our predecessor, assuming that the value of the OP units issued as the merger consideration was between \$140 million and \$160 million, we did not obtain a fairness opinion with respect to the fairness of the merger consideration to us and we did

## **Table of Contents**

not obtain recent third-party appraisals for all of the hotels to be acquired by us in the formation transactions. As a result, the consideration to be paid by us to the members of our predecessor in the merger for our predecessor's 63 hotels and its 49% ownership interest in the two Scottsdale hotels may exceed the fair market value of the hotels and other assets being acquired by us in the formation transactions or the price that would have been paid in an arm's-length transaction.

The value of the aggregate consideration to be issued in the formation transactions is based on the IPO price of our common stock, which will be determined in consultation with the underwriters and does not necessarily bear any relationship to the book value or the fair market value of the hotels to be acquired by us in the formation transactions. As a result, the consideration being paid by us in exchange for the membership interests in our predecessor may exceed the aggregate fair market value of those assets.

***We are assuming liabilities in connection with the formation transactions, including unknown liabilities, which, if significant, could adversely affect our business.***

As part of the formation transactions, we will assume existing liabilities of our predecessor and its affiliates, including, but not limited to, liabilities in connection with our hotels, some of which may be unknown or unquantifiable at the time this offering is completed. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of hotel guests, vendors or other persons dealing with our predecessor, The Summit Group, and their affiliates prior to this offering, tax liabilities, employment-related issues and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, they could adversely affect our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions.

***Upon completion of this offering and the formation transactions, our Executive Chairman, Mr. Boekelheide, and his affiliates may be able to exercise significant influence over us and our affairs and any matter presented to our stockholders and our operating partnership's limited partners, and their interests may differ from the interests of the other limited partners of our operating partnership, including us, and our stockholders.***

Upon completion of this offering and the formation transactions, our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, will beneficially own an aggregate of 1,443,050 OP units in our operating partnership, which if redeemed for shares of our common stock in accordance with our operating partnership's agreement, would represent approximately % of our outstanding common stock upon completion of this offering on a fully diluted basis.

As a result, Mr. Boekelheide and his affiliates may be able to exercise significant influence over us and our operating partnership and any matter presented to our stockholders and the limited partners of our operating partnership for their consideration and approval. The interests of Mr. Boekelheide and his affiliates may differ from or conflict with the interests of our stockholders and the other limited partners of our operating partnership.

***Tax consequences to holders of OP units upon a sale or refinancing of our hotels may cause the interests of holders of OP units, including certain of our executive officers and directors, to differ from the interests of our other stockholders.***

As a result of the unrealized built-in gain that may be attributable to one or more of our hotels, holders of OP units, including certain of our executive officers and directors, may experience more onerous tax consequences than holders of our common stock upon the sale or refinancing of these hotels, including disproportionately greater allocations of items of taxable income and gain upon the occurrence of such an event. The tax protection agreements that we will

offer to enter into with certain former members of our predecessor, including The Summit Group, which is wholly owned by our Executive Chairman, Mr. Boekelheide, will not provide protection from those more onerous tax consequences. A holder of OP units that receives a disproportionately greater allocation of taxable income and gain will not receive a correspondingly greater distribution of cash proceeds with which to pay the income taxes on such income. Accordingly, they may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of such hotels and could exercise their influence over our affairs by attempting to delay, defer or prevent a transaction that might otherwise be in the best interests of our stockholders.

**Table of Contents**

***Our tax protection agreements may require us to maintain certain debt levels that otherwise would not be required to operate our business, which may impair our ability to generate cash available for distribution and otherwise not be in your best interests.***

Our operating partnership will offer to enter into tax protection agreements with a limited number of the members of our predecessor, including The Summit Group, to protect those members from recognizing taxable gain in connection with the formation transactions. Under the tax protection agreements, our operating partnership will provide those former members of our predecessor with the opportunity to guarantee debt or enter into a deficit restoration obligation, both of which are intended to prevent the former members of our predecessor from recognizing a taxable deemed cash distribution. If our operating partnership fails to make those opportunities available, it will be required to deliver to each such former member a cash payment intended to approximate the former member's tax liability resulting from its failure to make such opportunities available to them. These obligations may require us to maintain more or different indebtedness than would otherwise have been required for our business, which could result in higher interest expense than we would prefer to incur, reducing cash available for distribution to shareholders.

***Our fiduciary duties as the general partner of our operating partnership could create conflicts of interest.***

Upon completion of this offering and the formation transactions, we, as the sole general partner of our operating partnership, will have fiduciary duties to our operating partnership's limited partners, the discharge of which may conflict with the interests of our stockholders. The limited partners of our operating partnership have agreed that, in the event of a conflict between the duties owed by our directors to our company and the duties that we owe, in our capacity as the sole general partner of our operating partnership, to the limited partners, our directors are under no obligation to give priority to the interests of the limited partners. In addition, those persons holding OP units will have the right to vote on certain amendments to the limited partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights, as well as the right to vote on mergers and consolidations of the general partner or us in certain limited circumstances. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we cannot adversely affect the limited partners' rights to receive distributions, as set forth in the limited partnership agreement, without their consent, even though modifying such rights might be in the best interest of our stockholders generally.

***Certain key members of our senior management team will continue to be involved in other businesses, which may interfere with their ability to devote time and attention to our business and affairs.***

We will rely on our senior management team, including Mr. Boekelheide, for the day-to-day operations of our business. Following completion of this offering, Mr. Boekelheide and other key members of our senior management team, including Messrs. Hansen and Aniszewski, will continue to serve as executive officers and directors of The Summit Group. The Summit Group will continue to manage one hotel that is not owned by us, a Comfort Suites located in Tucson, Arizona. Our employment agreement with Mr. Boekelheide requires him to devote a substantial portion of his business time and attention to our business and our employment agreements with our other executive officers require our executives to devote substantially all of their business time and attention to our business. In addition, Mr. Boekelheide, as well as our Executive Vice President and Chief Financial Officer, Mr. Becker, and our Vice President of Acquisitions, Mr. Bertucci, will continue to serve as officers of Summit Green Tiger Investments, LLC, or Summit Green Tiger. Summit Green Tiger co-manages two private investment funds, which own a total of six multi-family properties. We will not compete with these funds for investment opportunities. These outside business interests may reduce the amount of time that Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci are able to devote to our business. For more information, see [Certain Relationships and Related Party Transactions](#) [Outside Business Interests](#).



## **Risks Related to Our Organization and Structure**

*Provisions of our charter may limit the ability of a third party to acquire control of us by authorizing our board of directors to issue additional securities.*

Our board of directors may, without stockholder approval, amend our charter to increase or decrease the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and to classify or reclassify any unissued shares of common stock or preferred stock, and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may authorize the issuance of additional shares or establish a series of common or preferred stock that may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our shares, even if stockholders believe that a

**Table of Contents**

change in control is in their interest. These provisions, along with the restrictions on ownership and transfer contained in our charter and certain provisions of Maryland law described below, could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities. See Certain Provisions of Maryland Law and of Our Charter and Bylaws.

***Provisions of Maryland law may limit the ability of a third party to acquire control of us by requiring our board of directors or stockholders to approve proposals to acquire our company or effect a change in control.***

Certain provisions of the Maryland General Corporation Law, or the MGCL, applicable to Maryland corporations may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- § business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of us who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an affiliate of any interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations, unless, among other conditions, our common stockholders receive a minimum price, as defined in the MGCL, for their stock and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares; and
- § control share provisions that provide that our control shares (defined as voting shares of stock which, when aggregated with all other shares of stock controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares ) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by our officers or by our employees who are also directors of our company.

By resolution of our board of directors, we have opted out of the business combination provisions of the MGCL and provided that any business combination between us and any other person is exempt from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of directors (including a majority of directors who are not affiliates or associates of such persons). In addition, pursuant to a provision in our bylaws, we have opted out of the control share provisions of the MGCL. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.***

Under Maryland law, generally, a director will not be liable if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- § actual receipt of an improper benefit or profit in money, property or services; or

§ active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director and officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

**Table of Contents**

***Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.***

Our charter provides that a director may be removed only for cause (as defined in our charter) and then only by the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors. Our charter also provides that vacancies on our board of directors may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements prevent stockholders from removing directors except for cause and with a substantial affirmative vote and from replacing directors with their own nominees and may prevent a change in control of our company that is in the best interests of our stockholders.

***The ability of our board of directors to change our major policies without the consent of stockholders may not be in your interest.***

Our board of directors determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to stockholders. Our board may amend or revise these and other policies and guidelines from time to time without the vote or consent of our stockholders. Accordingly, our stockholders will have limited control over changes in our policies and those changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

***The ability of our board of directors to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.***

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

***We are a holding company with no direct operations. As a result, we will rely on funds received from our operating partnership to pay liabilities and dividends, our stockholders' claims will be structurally subordinated to all liabilities of our operating partnership and our stockholders will not have any voting rights with respect to our operating partnership activities, including the issuance of additional OP units.***

We are a holding company and will conduct all of our operations through our operating partnership. We do not have, apart from our ownership of our operating partnership, any independent operations. As a result, we will rely on distributions from our operating partnership to pay any dividends we might declare on shares of our common stock. We will also rely on distributions from our operating partnership to meet any of our obligations, including tax liability on taxable income allocated to us from our operating partnership (which might make distributions to us that do not equal to the tax on such allocated taxable income).

In addition, because we are a holding company, stockholders' claims will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, claims of our stockholders will be satisfied only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

After giving effect to this offering, we will own approximately % of the partnership interests in our operating partnership, or % if the underwriters exercise their over-allotment option in full. In addition, our operating partnership may issue additional OP units in the future. Such issuances could reduce our ownership percentage in our operating partnership. Because our common stockholders will not directly own any OP units, they will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

**Risks Related to Ownership of Our Common Stock and this Offering**

*There is currently no market for our common stock and a market for our common stock may not develop, which could adversely affect the liquidity and price of our common stock.*

Prior to this offering, there has not been a public market for our common stock, and we cannot assure you that a regular trading market for the common stock offered hereby will develop or, if developed, that any such market will be sustained. In the absence of a public trading market, an investor may be unable to liquidate an investment in our common stock. The IPO price has been determined by us and the underwriters. We cannot assure you that the price at which the

**Table of Contents**

common stock will sell in the public market after the closing of the offering will not be lower than the price at which it is sold by the underwriters.

***The NYSE or another nationally recognized exchange may not continue to list our securities, which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.***

We have applied to list our common stock on the NYSE under the symbol INN. If we are approved for listing on the NYSE, in order to remain listed we will be required to meet the continued listing requirements of the NYSE or, in the alternative, any other nationally recognized exchange to which we apply. We may be unable to satisfy those listing requirements, and there is no guarantee our securities will remain listed on a nationally recognized exchange. If our securities are delisted from the NYSE or another nationally recognized exchange, we could face significant material adverse consequences, including:

- § a limited availability of market quotations for our securities;
- § reduced liquidity with respect to our securities;
- § a determination that our common stock is penny stock, which will require brokers trading in our common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for the common stock;
- § a limited amount of news and analyst coverage; and
- § a decreased ability to issue additional securities or obtain additional financing in the future.

***The cash available for distribution may not be sufficient to make distributions at expected levels, and we cannot assure you of our ability to make distributions in the future. We may use borrowed funds or funds from other sources to make distributions, which may adversely impact our operations.***

We intend to make distributions to our common stockholders and holders of OP units. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available for distribution and will depend upon a number of factors, including restrictions under applicable law and the capital requirements of our company. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, the requirements for qualification as a REIT and other factors as our board of directors may deem relevant from time to time. We may be required to fund distributions from working capital, borrowings under the credit facility we anticipate obtaining following completion of this offering, proceeds of this offering or a sale of assets to the extent distributions exceed earnings or cash flows from operations. Funding distributions from working capital would restrict our operations. If we borrow from the credit facility we anticipate obtaining following completion of this offering in order to pay distributions, we would be more limited in our ability to execute our strategy of using that credit facility to fund acquisitions. Finally, selling assets may require us to dispose of assets at a time or in a manner that is not consistent with our disposition strategy. If we borrow to fund distributions, our leverage ratios and future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. We may not be able to make distributions in the future. In addition, some of our distributions may be considered a return of capital for income tax purposes. If we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in their shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. If distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

***We may change the distribution policy for our common stock in the future.***

The decision to declare and make distributions on our common stock in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our board of directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements or contractual prohibitions, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of directors deems relevant. While the statements under Distribution Policy reflect our current intentions, the actual distribution payable will be determined by our board of directors based upon the circumstances at the time of declaration and the actual distribution payable may vary from such expected amounts. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

**Table of Contents**

***We may use a portion of the net proceeds from this offering to make distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, which would, among other things, reduce our cash available for investing.***

We may fund our distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, out of the net proceeds of this offering, which would reduce the amount of cash we have available for investing and other purposes. The use of the net proceeds to fund distributions could be dilutive to our financial results. In addition, funding distributions from the net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder's basis in its shares of our common stock.

***The market price of our common stock may be volatile due to numerous circumstances beyond our control.***

The trading prices of equity securities issued by REITs and other real estate companies historically have been affected by changes in market interest rates. One of the factors that may influence the price of our common stock is the annual yield from distributions on our common stock as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to stockholders, may lead prospective purchasers of our common stock to demand a higher annual yield, which could reduce the market price of our common stock.

Other factors that could affect the market price of our common stock include the following:

- § actual or anticipated variations in our quarterly results of operations;
- § changes in market valuations of companies in the lodging industry;
- § changes in expectations of future financial performance or changes in estimates of securities analysts;
- § fluctuations in stock market prices and volumes;
- § our issuances of common stock or other securities in the future;
- § the inclusion of our common stock in e